

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

PUBLIC UTILITIES
COMMISSION

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FILED

-----In the Matter of the Application of-----)
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HAWAIIAN ELECTRIC COMPANY, INC.)
)
For Approval of Rate Increases and Revised)
Rate Schedules and Rules, and for Approval and/or)
Modification of Demand-Side and Load Management)
Programs and Recovery of Program Costs and DSM)
Utility Incentives.)
_____)

Docket No. 04-0113

APPLICATION

and

CERTIFICATE OF SERVICE

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Utility Incentives.)	
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APPLICATION

TO THE HONORABLE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII:

I

This Application is filed by HAWAIIAN ELECTRIC COMPANY, INC.
("Applicant" or "HECO") for approval of a general rate increase and revised rate
schedules and rules. The amount of the increase in revenues requested is \$98,614,000, or
9.9%, over revenues at present rates.¹ The amount of the increase in revenues requested

¹ This is the requested increase in base rates.

is estimated to be \$74,194,000, or 7.3%, over revenues at current effective rates (i.e., rates that are currently in effect for customers).²

The requested increase is based on estimated total revenue requirements of \$1,095,721,000 for the normalized 2005 test year (based on May 1, 2004 fuel oil and purchased energy prices and a 9.11% rate of return on HECO's average rate base).

Revenues at present rates (and at proposed rates) are calculated without including revenues recovered through the Integrated Resource Planning Cost Recovery Provision ("IRP Clause"). The IRP Clause currently is used to recover costs for integrated resource planning ("IRP") and demand-side management ("DSM") programs that are not included in base rates.³ In general, as a result of approved stipulations regarding its DSM programs⁴, HECO proposes in this rate case to recover certain revenues (estimated at \$24.4 million for the normalized test year) currently recovered through the IRP Clause through base rates instead. As a result, part of the increase in base rates experienced by customers will be offset by the decrease in IRP Clause revenues. Thus, the amount of the requested increase in revenues over revenues at current effective rates (i.e., the net rate increase that customers would experience if the requested increase is approved by the Commission) is estimated to be \$74,194,000, or 7.3%. The net rate increase experienced by customers (i.e., the increase in revenues over revenues at current effective rates that

² Current effective rates include both base rates and the Integrated Resource Planning Cost Recovery Provision.

³ The components of the IRP Clause include the Integrated Resource Planning Cost Recovery Adjustment (which is used to recover incremental IRP costs that are not included in base rates, and related revenue taxes), and the Residential and Commercial and Industrial DSM Adjustments (which are used to recover DSM program costs, as well as lost margins resulting from implementation of the programs, shareholder incentives authorized as part of the program approvals, and related revenue taxes).

⁴ See Part X of the Application.

include the IRP Clause revenues) will be lower due to the offsetting reduction in the DSM Adjustments and Integrated Resource Planning Cost Recovery Adjustment of the IRP Clause.

A substantial part of the increase arises out of the need to recover revenues now provided by the IRP Clause (to cover the costs of existing energy efficiency DSM programs, including lost margins and shareholder incentives) through base rates, and to recover the incremental costs of HECO's proposed enhanced energy efficiency DSM programs, a proposed Residential Conservation Energy Awareness ("RCEA") Program, and two approved load management DSM programs. As is indicated in Part X of this Application, HECO also requests the approvals necessary (1) to implement the seven new energy efficiency DSM programs proposed by HECO, (2) to recover the costs for the seven programs, the proposed RCEA Program and the two load management DSM programs through base rates, (3) to implement and recover the costs of a DSM Utility Incentive provision for the DSM programs (given discontinuance of the existing lost margin and shareholder incentive mechanisms), and (4) to reconcile DSM customer incentives through a proposed DSM Reconciliation Clause.

HECO requests that the general rate increase and the revisions to its rate schedules and rules be granted in two steps:

1. Interim Increase – an Interim Increase equal to increase in rates to which the Commission believes HECO is "probably entitled" based on the evidentiary record before it, in accordance with Section 269-16(d) of the Hawaii Revised Statutes ("H.R.S.").

HECO will determine the amount that it is requesting in the Interim Increase at the close of the evidentiary hearing, based on the evidence before the Commission.

2. Final Increase – a General Rate Increase when the Commission issues its final decision and order to provide for the amount of the total requested revenue increase not included in the Interim Rate Increase.

Applicant requests that the rate design changes requested in this Application be implemented when the Final Increase is implemented. Applicant proposes to allocate the increase in revenues as an equal percentage increase to all rate schedules.

Applicant further requests that the interim increase implemented prior to the final step be structured as surcharges for the various classes based on a percentage of the customer's base charges (i.e., exclusive of Energy Cost Adjustment charges and other surcharges).⁵

As shown in HECO-2301, the total revenue increase requested by HECO of \$98,614,000 represents a 9.9% increase over revenues at HECO's present rates for the normalized 2005 test year (based on May 1, 2004 fuel oil and purchased energy prices and a rate of return on rate base of 9.11%). As shown in HECO-2302, the amount of the increase over revenues based on current effective rates, which includes the IRP Clause revenues, is \$74,194,000, or 7.3%, for the normalized 2005 test year (based on May 1, 2004 fuel oil and purchased energy prices and a rate of return on rate base of 9.11%).

⁵ The surcharges for the various classes would be based on a percentage of the customer's base charges (i.e., exclusive of Energy Adjustment Charges and other surcharges).

II

As is further addressed in Part X of this Application, HECO's filing of a general rate case is in accordance with Order Nos. 19019 and 19020, filed on November 15, 2001, in Docket Nos. 00-0169 and 00-0209, respectively, which authorized HECO to temporarily continue its existing Commercial and Industrial DSM programs, and existing Residential DSM programs, until HECO's next rate case, which HECO committed to file within two to three years using either a 2003 or 2004 test year in accordance with Section 61-6-187 (4) (A) and (B) of the Hawaii Administrative Rules ("H.A.R."). By Order Nos. 20391 and 20392, filed on August 26, 2003, in Docket Nos. 00-0169 and 00-0209, respectively, the Commission authorized a delay of the filing of HECO's general rate case by approximately 12 additional months such that HECO would utilize a 2005 test year for the filing.

III

This Application is filed pursuant to the Rules of Practice and Procedure before the Public Utilities Commission, Title 6, Chapter 61, H.A.R. ("Rules of Practice and Procedure"), particularly Subchapters 2, 6, and 8. The approval by the Commission of the proposed rate increase, and revised rate schedules, is sought under the provisions of Section 269-16, H.R.S. Pursuant to Section 6-61-87(11) of the Rules of Practice and Procedure, written direct testimonies, exhibits and workpapers supporting this Application and showing justification for the increase requested are filed with this Application and made a part hereof.

The approvals for the DSM programs (and the recovery of DSM program costs and incentives) are requested pursuant to Paragraphs II.B.7., III.F. and V. of the Commission's Framework for Integrated Resource Planning (revised May 22, 1992) ("IRP Framework"), which was issued pursuant to Decision and Order No. 11523 (March 12, 1992) and Decision and Order No. 11630 (May 22, 1992) in Docket No. 6617. In addition, approvals for the DSM programs (and recovery of DSM program costs and incentives) are sought under the provisions of Order Nos. 19019 and 19020, as modified by Order Nos. 20391 and 20392, respectively, as is further addressed in Part X of this Application.

IV

HECO, whose executive office is located at 900 Richards Street, Honolulu, Hawaii, is a corporation duly organized under laws of the Kingdom of Hawaii on or about October 13, 1891, and is now existing under and by virtue of the laws of the State of Hawaii.

HECO is an operating public utility engaged in the production, purchase, transmission, distribution, and sale of electricity on the island of Oahu, State of Hawaii. Since July 1, 1983, HECO has been a wholly-owned subsidiary of Hawaiian Electric Industries, Inc. ("HEI"). A general description of HECO's property and equipment is contained in the written direct testimonies, exhibits and workpapers filed herewith and made a part hereof.

V

Correspondence and communications in regard to this Application should be addressed to:

William A. Bonnet
Vice President, Government and Community Affairs
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Honolulu, Hawaii 96840-0001

Copies of such correspondence and communications should be sent to:

Patsy H. Nanbu
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and

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VI

The authorized capital stock of HECO consists of 50,000,000 shares of \$6 2/3 par value Common Stock (total authorized par value of \$333,500,000), and 5,000,000 shares of \$20 par value Cumulative Preferred Stock and 5,000,000 shares of \$100 par value Cumulative Preferred Stock (total authorized par value of \$600,000,000), or a total authorized par value of \$933,500,000 for Common Stock and Cumulative Preferred

Stock.

As of September 30, 2004, HECO had outstanding 12,805,843 shares of Common Stock of the par value of \$6 2/3 per share, having a total par value of \$85,387,140.

A summary of the dividends paid on HECO's Common Stock for the five-year period 1999-2003 and the common stock balance at the end of each of those years is as follows:

<u>Year</u>	<u>Dividends Paid</u>	<u>Common Stock Balance</u>
2003	\$57,719,000	\$85,387,140
2002	44,143,000	85,387,140
2001	36,309,000	85,387,140
2000	68,522,000	85,387,140
1999	55,852,000	85,387,140

As of September 30, 2004, HECO had outstanding 1,114,657 shares of Cumulative Preferred Stock of the par value of \$20 per share, having a total par value of \$22,293,140. Details concerning such cumulative Preferred Stock are on file with the Commission under various docket numbers as set forth in HECO-103 (which is attached hereto) and are incorporated herein by reference.

A summary of the dividends accrued on HECO's Preferred Stock for the five-year period 1999-2003 and the preferred stock balance at the end of each of those years is as follows:

<u>Year</u>	<u>Dividends Paid</u>	<u>Preferred Stock Balance</u>
2003	\$1,079,907	\$22,293,140
2002	1,079,907	22,293,140
2001	1,079,907	22,293,140
2000	1,079,907	22,293,140
1999	1,178,456	22,293,140

As of September 30, 2004, HECO had outstanding \$31,546,400 in Junior Subordinated Deferrable Interest Debentures (“QUIDS”) hybrid securities. Details concerning the QUIDs are on file with the Commission under various dockets as set forth in HECO-103 and are incorporated herein by reference.

As of September 30, 2004, HECO had outstanding \$451,580,000 in obligations to the State of Hawaii for the repayment of Special Purpose Revenue Bonds. Details are on file with the Commission under various docket numbers as set forth in HECO-103 and are incorporated herein by reference. As of September 30, 2004, HECO had outstanding \$47,579,665 of short-term borrowings from its parent company, HEI, \$24,000,000 of short-term borrowings from Maui Electric Company, Limited (“MECO”), and \$8,392,344 of other short-term borrowings.

During 2003, HECO accrued \$4,842,372 in interest on QUIDs, \$26,213,591 in interest on Special Purpose Revenue Bonds, \$70,449 on borrowings from HEI and \$232,204 on borrowings from MECO. An estimate of the savings realized by HECO's customers by virtue of using Special Purpose Revenue Bonds is shown in HECO-2119

and is incorporated herein by reference.

VII

HECO's audited financial statements for the year ended December 31, 2003 (audited by KPMG LLP) are included in HECO's and HEI's Securities and Exchange Commission ("SEC") Form 8-K dated February 26, 2004, which was routinely filed with the Commission on March 1, 2004, and are incorporated herein by reference.

HECO's unaudited balance sheet as of September 30, 2004, and unaudited income statement and statement of retained earnings for the nine months ended September 30, 2004, are attached hereto as HECO-102.

A general description of HECO's property and equipment are provided in the written direct testimonies and exhibits filed herewith. The original cost of HECO's property and equipment and the applicable depreciation reserve are shown in the September 30, 2004 balance sheet, as well as in the written direct testimonies and exhibits filed herewith.

HEI's 2003 Annual Report to Stockholders, and its SEC Form 10-K report for the year ended December 31, 2003, were routinely filed with the Commission on March 11, 2004, and are incorporated herein by reference. HEI's latest Proxy Statement (dated March 9, 2004) is attached hereto as HECO-104.

VIII

HECO's present rates are the result of the Commission's Final Decision and Order ("D&O") No. 14412 issued December 11, 1995, in HECO's last rate case, Docket No.

7766, which utilized a 1995 test year, and D&O No. 20292 issued July 1, 2003 and Order No. 20310 issued July 9, 2003, in Docket No. 03-0126, which implemented a temporary rate reduction made possible as a result of a capacity charge reduction due to the amendment of HECO's power purchase agreement with AES Hawaii, Inc.⁶ HECO's present rate schedules are set forth in HECO-105, which is attached hereto.

HECO-106 sets forth HECO's proposed rate schedules. The proposed revisions to HECO's rate schedules, including revisions to existing rate schedules, discontinuance of Rider EV-R and Rider EV-C, and the addition of Schedule TOU-C and the DSM Reconciliation Clause, are described in written direct testimonies, HECO T-10 and HECO T-22, and the exhibits and workpapers thereto, which are incorporated herein by reference.

HECO-107 sets forth HECO's present Table of Contents and Rule 4.

HECO-108 sets forth HECO's proposed Table of Contents and proposed Rule 4 (which reflects the discontinuance of Rule 4.D.).

HECO-109 set forth HECO's present Rule 7.

HECO-110 sets forth HECO's proposed Rule 7, which, among other things, increases the return check charge from \$7.50 to \$16, increases the field collection charge from \$15 to \$20, and increases the service establishment charge from \$15 to \$20, as more completely described in HECO T-22.

⁶ The impact of the capacity charge reduction is included in HECO's revenue requirements for the 2005 test year, and the temporary rate reduction will be discontinued when new rates are set in this rate case.

HECO has a tariff proposal pending before the Commission, Rider EDR-Economic Development Rate, which was submitted on November 4, 2002, under Tariff Transmittal No. 02-02, and which was suspended and converted into Docket No. 02-0405 by Order No. 19780 issued on November 19, 2002. HECO's proposed Rider EDR would provide energy rate reductions for a period of five years to customers engaged in eligible business activities as defined in the proposed transmittal. Rider EDR will be incorporated into HECO's tariff, if authorized by the Commission in Docket No. 02-0405.

HECO and its electric utility subsidiaries, Hawaii Electric Light Company, Inc. ("HELCO") and MECO, filed an application in Docket No. 03-0366 requesting approval of each Company's proposed Combined Heat and Power ("CHP") Program and related tariff provision (Schedule CHP, Customer-Sited Utility-Owned Cogeneration Service). Under their CHP Programs and Schedule CHP tariff, the Companies propose to offer CHP systems to eligible utility customers on the islands of Oahu, Maui and Hawaii as a regulated utility service. The Application requests that the Commission approve each Company's proposed Schedule CHP, Customer-Sited Utility-Owned Cogeneration Service ("Schedule CHP"), the proposed standard form CHP Agreement and Eligibility Criteria, and modified Energy Cost Adjustment Clause ("ECAC") provision. By Order No. 20831, issued March 2, 2004 in Docket No. 03-0366, the Commission ordered that the CHP Program application "is suspended until further order of the Commission", while it considers broader policy issues concerning distributed generation in Hawaii in Docket No. 03-0371, Proceeding to Investigate Distributed Generation in Hawaii ("DG

Investigation”). The Commission indicated that the generic DG docket is intended to “form the basis for rules and regulations deemed necessary to govern participation in Hawaii’s electricity market through distributed generation”. Docket No. 03-0371 is currently in progress, with evidentiary hearings scheduled for December 8-10, 2004. Schedule CHP will be incorporated into HECO’s tariff, if authorized by the Commission in Docket No. 03-0366.

As discussed in HECO T-7, HECO is continuing to develop selected CHP system projects for customers, with the understanding that, for individual CHP projects to be installed under service contracts, Commission approval is required under Rule 4 of HECO’s tariff. In opening its generic DG investigation in Order No. 20582, issued October 21, 2003 in Docket No. 03-0371, the Commission indicated that it may consider “related matters on a case-by-case basis”.

HECO also plans to submit a notice filing in the near future to modify Rule 18-Net Energy Metering in order to make Rule 18 conform with the latest modifications to the net energy metering law made by Act 99, Session Laws of Hawaii 2004.

Corresponding changes to Rule 14.H., Interconnection of Distributed Generating Facilities Operating in Parallel with the Company’s Electric System, will also be submitted. The modifications to Rule 18 and corresponding changes to Rule 14.H. will be incorporated into HECO’s tariff, if authorized by the Commission.

The proposed rate increases by rate classes for the normalized 2005 test year are shown in HECO-111. This exhibit shows revenues at present rates, and the total increase requested in terms of dollars and by percentage. As shown on HECO-111, the proposed

percentage increase to the different classes of service is the same. The proposed increase reflects the average proposed increase for each schedule of service. The increase experienced by a particular customer will depend on the customer's schedule of service, and other factors, such as the customer's energy use and the customer's billing demand (where applicable).

The Commission will investigate the reasonableness of the proposed revenue increase and rate schedule changes. The total revenue increase will not exceed the \$98,614,000 over revenues of present rates (based on May 1, 2004 fuel oil and purchased energy prices) requested by the application, but the rates and charges to be finally approved by the Commission after its investigation may be higher or lower than the proposed rates and charges for the various schedules of service.

The proposed rate increases over current effective rates by rate classes for the normalized 2005 test year are shown in HECO-112.

A summary of HECO's estimated earnings on its average rate base at present rates for the normalized 2005 test year is shown in HECO-113. A summary of HECO's estimated earnings on its average rate base at current effective rates for the normalized 2005 test year is shown in HECO-114. The estimated results of operations at present rates, current effective rates and proposed rates, which are described in written direct testimony HECO T-23 (Results of Operations, Revenue Requirements, Implementation of the Proposed Rate Increase and Summary), have been prepared on a consistent basis reflecting normalized conditions, and are shown in HECO-2301 and HECO-2302, which are incorporated herein by reference.

The recorded results of operations for calendar year 2003 were filed with the Commission on January 28, 2004 and are incorporated herein by reference. The latest recorded results of operations for the 12 months ending September 30, 2004 were filed with the Commission on October 29, 2004 and are incorporated herein by reference.

Significant projected changes since December 31, 2003 in plant-in-service, revenues and expenses for the test period are discussed in the written direct testimonies and reflected in the supporting exhibits and workpapers, which are incorporated herein by reference.

The methods which HECO has elected to employ in computing deferred taxes, investment tax credits, and depreciation deductions for determining federal income tax payments, and whether HECO has used the same methods in calculating federal income taxes for the test period, are shown in written direct testimony HECO T-17, and the exhibits and workpapers thereto, which are incorporated herein by reference.

The requested increase reflects and passes through to HECO's customers only increased costs to HECO for the services and commodities furnished to it, as described in the written direct testimonies and exhibits, which are incorporated herein by reference.

IX

Pursuant to Section 6-61-85 of the Rules of Practice and Procedure, on May 18, 2004, HECO filed a Notice of Intent to file a general rate increase application, at which time the rate case was assigned Docket No. 04-0113. The reasons for the requested increase are set forth in the written direct testimonies, exhibits, and workpapers filed

herewith, and are summarized below and in written direct testimonies HECO T-1 (Introductory Statement) and HECO T-23 (Results of Operations, Revenue Requirements, Implementation of the Proposed Rate Increases, and Summary).

HECO has filed this request for a general rate increase in accordance with Order Nos. 19019 and 19020, filed on November 15, 2001, in Docket Nos. 00-0169 and 00-0209, respectively, and by Order Nos. 20391 and 20392, filed on August 26, 2003, in Docket Nos. 00-0169 and 00-0209, respectively. As a result of such orders, revenues currently recovered through the DSM component of the IRP Clause will need to be included in base rates,⁷ and HECO is requesting approval of its new and expanded energy efficiency and load management DSM programs, and recovery of the incremental program and incentive costs that will be incurred when the programs are implemented, beginning in 2005. These programs are needed to help mitigate the impacts of increases in the peak load served by HECO's electric system, arising out of economic growth and increasing electricity use. In addition, rate relief will be required in 2005 due to other steps taken by HECO to address its increasing need for additional firm capacity arising out of peak load growth. These include the addition of firm capacity to HECO's system in 2005 pursuant to amendments to the Kalaeloa power purchase agreement, which have been submitted for Commission approval on November 5, 2004 in Docket No. 04-0320, and the proposed installation of utility-owned CHP systems at customer sites. HECO's results of operations for the normalized 2005 test year also take into consideration

⁷ For the 2005 test year, the IRP Clause would provide approximately \$24,423,000 to HECO. This includes an estimated \$23,744,000 for DSM program costs, lost margins and shareholder incentives, and \$678,000 for incremental IRP costs. HECO also proposes to include incremental IRP costs in base rates to be consistent with the

additional investment in plant and equipment, additional operating and maintenance costs to maintain and improve the availability of existing generation, and increasing costs for labor (including wage increases pursuant to HECO's bargaining unit contract), materials, contract services, depreciation, and other operating expenses. Without further rate relief in this proceeding, and without recovery of the \$24,423,000 currently recovered through the IRP Clause, it is estimated that, at present rates (based on May 1, 2004 fuel oil and purchased energy prices), HECO's rate of return on its average rate base will be approximately 4.04% for the normalized 2005 test year, as compared to the 9.16% authorized by the Commission in Docket No. 7766 for test year 1995, and the 9.11% justified in this docket.

X

HECO requests approval of seven new energy efficiency DSM programs being proposed in this rate case, and the recovery of the programs' costs through base rates. The new energy efficiency DSM programs that are being proposed are the: (1) Commercial and Industrial Energy Efficiency ("CIEE") Program; (2) Commercial and Industrial New Construction ("CINC") Program; (3) Commercial and Industrial Customized Rebate ("CICR") Program; (4) Residential Efficient Water Heating ("REWH") Program; (5) Residential New Construction ("RNC") Program; (6) Residential Low Income ("RLI") Program; and (7) Energy\$Solutions for the Home ("ESH") Program.

treatment of such costs in Decision and Order No. 18365, issued February 8, 2001, in Docket No. 99-0207.

In addition, HECO has requested approval of the Residential Customer Energy Awareness (“RCEA”) Program (an energy awareness DSM program) in Docket No. 03-0142. In this Application, HECO proposes that the proposed RCEA Program duration be extended from two years to five years (to match the five-year duration for other programs) and that the cost recovery mechanism for the proposed program be modified so that the program costs are recovered entirely through base rates (rather than partly through base rates and partly through the DSM component of the IRP Clause), if the program is approved in Docket No. 03-0142.

HECO also requests approval to modify the cost recovery mechanism for its two approved load management DSM programs (so that program costs are recovered entirely through base rates, rather than partly through base rates and partly through the DSM Adjustment component of the IRP Clause). The two load management DSM programs include (1) the Residential Direct Load Control (“RDLC”) Program, and (2) the Commercial and Industrial Direct Load Control (“CIDLC”) Program.

These 10 DSM programs (including their projected energy savings and peak demand reduction impacts) are discussed in HECO T-11 and incorporated herein by reference. For the 2005 test year, the projected incremental energy savings on an annualized basis (net of free-riders) for these 10 DSM programs are 54,747 MWh, and the projected peak demand savings are over 21 MW at the gross generation level. By the fifth year of the programs, HECO’s projected energy consumption and annual peak demand to be served by central station generation are expected to be 273,736 MWh and

90.79 MW lower than if there were no energy efficiency or load management DSM programs after 2004.

Presently, HECO has five energy efficiency DSM programs, which were approved by the Commission in 1996 and for which HECO is allowed to recover program costs, lost margins and shareholder incentives through its IRP Clause. The Commission approved one-year extensions (to December 31, 2001) of HECO's Residential Efficient Water Heating Program, its Residential New Construction Program and its three Commercial and Industrial ("C&I") DSM programs by Order No. 18208 (November 27, 2000) in Docket No. 94-0206, Order No. 18207 (November 27, 2000) in Docket No. 94-0216, and Order No. 18206 (November 27, 2000) in Docket Nos. 94-0010, 94-0011 and 94-0012 (Consolidated), respectively. By Order Nos. 19019 and 19020, issued November 15, 2001, the Commission approved the temporary continuation of the five existing energy efficiency DSM programs, subject to certain conditions.

On May 31, 2000 and June 30, 2000, respectively, HECO filed applications requesting approval of (1) a new C&I DSM program, which would have consolidated the DSM measures in HECO's three existing C&I DSM programs, for a period of five years, and (2) a new Residential DSM program, which would have consolidated the DSM measures in HECO's two existing Residential DSM programs, for a period of five years. The applications also requested that the Commission approve recovery of program costs, lost margins, and shareholder incentives using the IRP Clause.

After the Consumer Advocate completed its review of the applications, HECO and the Consumer Advocate finalized letter agreements dated and filed October 5, 2001 (C&I

DSM programs) and October 12, 2001 (Residential DSM programs), under which HECO's three existing C&I DSM programs and two existing Residential DSM programs would be continued until HECO's next rate case (which HECO committed under the letter agreements to filing within three years using a 2003 or 2004 test year) in lieu of HECO continuing to seek approval of new 5-year DSM programs.⁸ Under the agreements, any DSM programs to be in place after HECO's next rate case would be determined as part of the rate case.

By Order Nos. 19019 and 19020, issued November 15, 2001, the Commission approved the proposed agreements, subject to certain conditions and modifications. The Commission also reserved the right, upon its own initiative or upon motion, to reopen the dockets or open a separate docket at any time to institute an investigation or other proceedings to ensure that the electric power consumers or ratepayers affected by the proceeding are protected and that the implementation of the parties' agreements are consistent with the Commission's IRP Framework.⁹

On August 7, 2003 and August 12, 2003, HECO filed agreements with the parties to the stipulations, which modified the stipulations by delaying the required filing of a general rate case by approximately 12 months such that HECO would utilize a 2005 test year for the filing. The terms and conditions of the stipulations, with the conditions imposed by the Commission's approval orders, remained generally unchanged, with the

⁸ HECO submitted two letter agreements for the Residential DSM programs - one executed by all parties to the docket that addressed the issues raised by the Consumer Advocate, Hawaii Solar Energy Association and Life of the Land, and one executed by HECO and the Consumer Advocate that addressed the issues raised by the Consumer Advocate.

new agreements providing for (1) temporary continuation of existing C&I and Residential DSM programs with such modifications as the Commission may, from time to time, approve or order, until the next rate case, (2) ending of the current DSM programs as part of the next rate case, with HECO pursuing development of new and/or replacement DSM programs that will continue to provide ample opportunities to ratepayers to strive for energy efficiency, and with the new and/or replacement DSM programs that may be in place after the next rate case to be determined as part of that case (i.e., in this rate case), (3) HECO continuing to accrue and recover the program costs, lost margins and shareholder incentives for HECO's existing DSM programs in accordance with the agreements, terms and conditions of the stipulations and Commission approval orders, and (4) HECO agreeing to not pursue the continuation of lost margins and shareholder incentives through a surcharge mechanism in the next rate case or thereafter. The Commission approved the new agreements by Order Nos. 20392 and 20391, issued August 26, 2003 in Docket Nos. 00-0209 and 00-0169, respectively. (As modified and approved by the Commission, the stipulations are referred to in this Application as the "DSM Stipulations".)

As part of its third cycle IRP process in Docket No. 03-0253, HECO has assessed the energy efficiency achievable potential for Oahu. The findings of the assessment include (1) that even with the accomplishments from HECO's existing energy efficiency programs, significant potential still exists for additional energy savings on Oahu, (2)

⁹ Additional information for the C&I and Residential DSM programs was filed on December 14, 2001, and HECO and the parties have periodically filed the joint reports required by the Commission's DSM approval orders.

these energy savings can best be realized through a major expansion of HECO's energy efficiency DSM program efforts, and (3) this will necessitate that HECO expand its existing DSM program portfolio to include previously underserved markets for energy efficiency. HECO's proposed seven new energy efficiency DSM programs (i.e., the CIEE, CINC, CICR, REWH, RNC, RLI and ESH Programs) are based on the results of the assessment of energy efficiency available on Oahu.

In lieu of pursuing the continuation of the recovery of lost margins and shareholder incentives through a surcharge mechanism, HECO has developed a proposed "DSM Utility Incentive", which is described in HECO T-10 and incorporated herein by reference. Generally, the purpose of the mechanism, as described in HECO T-12 and incorporated herein by reference, is to provide a financial incentive to the utility to help ensure the success of the DSM programs by taking away the disincentives of DSM programs, and by aligning positive incentives with successful program delivery.¹⁰ In effect, the mechanism recognizes the energy efficiency services provided by HECO through the DSM programs and the shortfall in fixed cost contribution due to the energy reductions resulting from the DSM programs.

HECO also filed applications requesting approval of (1) a Residential Customer Energy Awareness Pilot ("RCEA") Program, on May 15, 2003 in Docket No. 03-0142, (2) a Residential Direct Load Control Program, on June 6, 2003 in Docket No. 03-0166,

¹⁰ In HECO T-12, HECO also notes the changed circumstances facing Hawaii since the time the agreements in the DSM stipulations were initially made by HECO and the Consumer Advocate in 2001, and indicates that continuation of the existing mechanisms for lost margin recovery and shareholder incentive should be considered if the DSM Stipulations are modified.

and (3) a C&I Direct Load Control Program, on December 11, 2003 in Docket No. 03-0415. HECO requested recovery of program costs through its IRP Clause, but did not request recovery of lost margins or shareholder incentives for the three proposed programs. Pursuant to Stipulated Procedural Order No. 21339 in Docket No. 03-0142 (filed September 10, 2004), HECO filed a revised application requesting approval of the RCEA Program on October 7, 2004. The Commission approved (1) the Residential Direct Load Control Program, as modified by a stipulated agreement between HECO and the Consumer Advocate (filed June 30, 2004), by Decision and Order No. 21415 issued October 14, 2004, and (2) the C&I Direct Load Control Program, as modified by a stipulated agreement (filed July 15, 2004), by Decision and Order No. 21421 issued October 19, 2004.

In this Application, HECO respectfully requests the approvals necessary (1) to implement the seven new energy efficiency DSM programs (i.e., the CIEE, CINC, CICR, REWH, RNC, RLI and ESH programs); (2) to recover the program costs for the seven energy efficiency DSM programs, the RCEA Program, and the two load management DSM programs (i.e., the CIDLC and RDLC programs) through base rates (as provided for in the DSM Stipulations); (3) to implement and recover the costs of the proposed DSM Utility Incentive (given discontinuance of the current lost margin recovery and shareholder incentive mechanisms pursuant to the DSM Stipulations) through base rates; and (4) to reconcile DSM customer incentives and Utility Incentive through a proposed DSM Reconciliation Clause (as discussed in HECO T-10).

WHEREFORE, HECO prays:

1. That the required public hearing and evidentiary hearing be held on this application;
2. That the Commission establish a procedural schedule with the intent to make every effort to complete its deliberations in order to render a decision such that an increase in rates is effective as soon as practicable;
3. That the Commission approve HECO's requested revenue increase of \$98,614,000 over present rates for the normalized 2005 test year (based on May 1, 2004 fuel oil and purchased energy prices), and its revised rate schedules and rules;
4. That the Commission approve an Interim Increase to which the Commission, based on the evidentiary record before it, believes HECO is probably entitled, to be effective as soon as practicable, pursuant to Section 269-16(d), H.R.S.;
5. That the Commission approve a Final Increase (which would incorporate the Interim Increase), such that the combined impact of the Interim and Final Increases yields the requested revenue increase of \$98,614,000 over present rates for the normalized 2005 test year (based on May 1, 2004 fuel oil and purchased energy prices);
6. That the Commission approve HECO's seven proposed energy efficiency DSM programs described in HECO T-11 (i.e., the CIEE, CINC, CICR, REWH, RNC, RLI, and ESH Programs), and the proposed five-year duration of the RCEA Program;
7. That the Commission approve the recovery of DSM program costs, which are addressed (including the provision of proposed five-year program budgets) in HECO T-11, through base rates for the seven energy efficiency DSM Programs proposed by

HECO, the RCEA Program proposed by HECO in Docket No. 03-0142, and the two load management DSM programs (i.e., the RDLC and CIDLC Programs) approved by the Commission in Docket Nos. 03-0166 and 03-0415, with reconciliation of DSM customer incentives through a proposed DSM Reconciliation Clause;

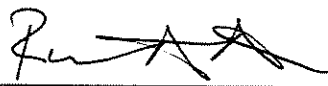
8. That the Commission approve HECO's proposed DSM Utility Incentive, described in HECO T-10 and T-11, and HECO's recovery of the DSM Utility Incentive costs through base rates, with reconciliation of such incentives through the proposed DSM Reconciliation Clause;

9. That the Commission approve HECO's requested program (and budget) flexibility for the 10 DSM programs, as described in HECO T-11; and

10. That the Commission grant HECO such other and further relief as may be just and equitable in the premises.

DATED: Honolulu, Hawaii, November 12, 2004.

HAWAIIAN ELECTRIC COMPANY, INC.

By 
Robert A. Alm
Senior Vice President, Public Affairs


STATE OF HAWAII)
) ss.
CITY AND COUNTY OF HONOLULU)

ROBERT A. ALM, being first duly sworn, on oath, deposes and says: That he is the Senior Vice President, Public Affairs of Hawaiian Electric Company, Inc., the within-named applicant; that he makes this verification for and on behalf of said applicant and is authorized so to do; that he has read the foregoing Application, knows the content thereof, and that the same are true.

[Handwritten signature]

ROBERT A. ALM

Subscribed and sworn to before me
this 12th day of November, 2004.


Carolyn C. Kuwana

Carolyn C. Kuwana
Notary Public, State of Hawaii

My commission expires: October 4, 2006

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